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GENERAL

Date: 10 MAR 78 By:

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1. US will seek to forestall Swedish request for US aid--The Department of State has told US Embassy Stockholm that it intends to prevent an anticipated Swedish request for US financial assistance by privately informing the Swedish Foreign Office financial representative (now in Washington) that it would be best for him not to press for credit discussions during his current visit. The Department plans to relieve Sweden's present financial position by giving the Swedish Government freedom of action to restrict imports from the dollar area and possibly to postpone payments.

EUROPE

2. ITALY: Possible ill effects of ending bread subsidy--US Ambassador Dunn reports that at a recent meeting of Cabinet and high-level technical officials on interim aid and European recovery, discussion centered on the Government's use of subsidies to lower the price of bread. Vice Premier Einaudi argued that this practice should be abandoned for budgetary reasons, because maintenance of the subsidy would require the expenditure of 58 billion lire from the lira fund accruing from US interim aid. The more politically-minded Ministers at the meeting, however, argued strongly in favor of the subsidy. Dunn comments that it would be unfortunate if in the Italian mind US aid should be identified with a 100% increase in the price of bread, which constitutes two-thirds of the Italian worker's diet.
3. RUMANIA: Abdication forced upon Michael--US Legation Bucharest has been informed by Radulescu, King Michael's closest adviser, and Ionnitiu, the King's secretary, that the King was forced to abdicate. These sources report that (a) before the abdication document was presented to Michael, his Palace bodyguard was arrested and replaced by selected Government troops; (b) when Premier Groza presented the document, he warned that he "could not be responsible for popular unrest or actual bloodshed" if the King refused to abdicate or took long in considering the matter. These sources also report that the Govern-

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ment has indicated that it will not permit Radulescu to leave Rumania, despite previous assurances of safe-conduct for the King's household, because it believes Radulescu is slated to become Prime Minister of a Rumanian emigre government.

4. GREECE: International battalions reported ready to support guerrillas--

US Charge Rankin reports Greek General Staff information

[redacted] that international brigade elements, organized in four battalions, have been receiving special training in anti-tank and anti-aircraft weapons in camps in Albania and Yugoslavia. The report states that the battalions will be used in an imminent attack on Florina, following diversionary operations at other border points.

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(CIA Comment: Use of trained technical personnel in support of guerrilla troops would indicate that the Markos forces are abandoning guerrilla in favor of more orthodox tactics and are adopting a new policy of attempting to hold territory. The recent attack on Koutisa might well be the first part of the reported diversionary operations.)

NEAR EAST-AFRICA

5. PALESTINE: Arabs claim control of situation--US Consul General Macatee in Jerusalem has been informed by Emile Ghoury, member of the Arab Higher Executive and close friend of the Mufti, that: (a) the Arab Higher Executive now has complete control of all Arab bands operating throughout Palestine; (b) Palestine is now organized into three Arab military zones with a commander for each zone, and the present plan is to arm and supply Arabs in those areas intended for inclusion in the proposed Jewish state before organizing the predominantly Arab areas; (c) incidents are expected to grow in intensity but no major action is proposed until after departure of the British; (d) the Arabs now believe Hagana a "myth" and no longer fear its power; and (e) the Arab Legion may occupy all of Palestine. In conclusion, Ghoury emphasized the determination of Palestine Arabs and the Arab world to "fight to a finish the creation of a Jewish state and UN control."

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(CIA Comment: While Ghoury is obviously underestimating the strength of Hagana for propaganda purposes, CIA believes his other statements to be substantially correct.)

6. INDIA: Army not preparing for war--General Bucher, the British Commander-in-Chief of the Indian Army, has told US Charge Donovan in New Delhi that: (a) no steps have been taken to prepare the Indian Army for offensive action against Pakistan; (b) such preparations in any event could not be completed under 30 days; and (c) if war appeared imminent, he would not hesitate to inform the UK Government that all British officers with the Indian Army should be transferred from operational duties to advisory capacities. Donovan comments that, in the light of his conversation with Bucher, he now feels more optimistic regarding the general situation.

FAR EAST

7. CHINA: Communist objectives in Manchuria--US Consul General Ward reports from Mukden that (a) the present situation in Mukden is serious but not critical; (b) the massing of Nationalist troops in Mukden to meet the Communist threat has, from the standpoint of numerical strength and fire power, made that city stronger than it has been for months; (c) from a logistical and long range point of view, however, the Nationalist overall position in Manchuria has been considerably weakened by the Communist move; and (d) Changchun and Kirin are isolated and may soon be without efficient defense forces. Ward considers that Communist objectives, in order of importance, are: to cut off food supplies from Mukden, to capture Hsin Min and completely destroy the Mukden-Peiping rail line from Mukden west to Changhsi, and to capture Kirin and Changchun.

According to Ward, high Chinese officials in Mukden admit that, unless the Nanking government takes prompt and drastic steps to strengthen its hold on Manchuria, this area will undoubtedly fall to the Communists, though perhaps not for many months.

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